

POSSIBLE (RE)DEFINED

Year-End Tax Strategies for Businesses

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Learning Objectives

KNOWLEDGE



Uncover key strategies for managing income, expenses, deductions and credits.



Gain insights on upcoming tax reforms and their impact on businesses.



Explore strategies to minimize liability and mitigate multi-state/international risks.



Discover tax-efficient planning to enhance growth and financial stability.

CPE INFORMATION

Program Level: BASIC

Recommended CPE: 1

Field of Study: TAXES

Program Prerequisite: NONE

Advanced Preparation: NONE

WELCOME

Today's Presenters



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YEAR-END PLANNING

Agenda

- Welcome
- Key Changes & Legislative Updates
- Tax Cuts & Jobs Act (TCJA)
- Section 163(j)
- SALT Hot Topics
- Connelly v. United States
- Entity Specific Planning Considerations
- State Planning Considerations
- Credits & Incentives Update
- R&D Tax Credits Update
- Strategic Opportunities for Year-End Planning
- Q & A
- Conclusion

Key Changes & Legislative Updates

- What to know about potential Tax Cuts & Jobs Act Expiration
- Connelly v. United States: May Necessitate Updates To Life Insurance Policies For Closely Held Businesses
- State and Local Updates

Key Changes & Legislative Updates

- Section 163(j) - 30% limitation
- Bonus Depreciation Phase Out – down to 60% for 2024
- Section 174
- Section 382 increased importance
- Form 6765 changes
- ASU 2023-09 for Income Tax Provisions
 - Increased footnote disclosures for rate reconciliation and taxes paid
 - 2025 effective date for public companies, 1 year delay for others

Potential TCJA Expiration

- With single-party control in Washington D. C. next year, it's more likely Congress could extend all or parts of the TCJA instead of allowing it to expire on December 31, 2025.
- Unless Congress acts many TCJA tax provisions will sunset/expire at the end of 2025 reverting to pre-TCJA rules in effect before 2018.

Key tax provisions that would sunset:

- Elimination of 20% qualified business income deduction (QBI)
- Increase in certain international business tax rates
- Higher estate tax exemption from \$13.61 Million to roughly \$7 Million
- Higher Individual Tax Rates
- Potential Changes to State PTET Programs Due to \$10K SALT cap expiring

Potential TCJA Expiration

TCJA Provisions that are NOT Expiring:

- 21% Corporate Tax Rate
- Net operating loss limited to offset 80% of taxable income with no carryback with indefinite carry-forward
- \$500,000 excess business loss limitation for individuals (adjusted for inflation)
- Section 174 research and development expense disallowance
 - Required amortization over 5 years for U.S.-based R&D
 - Required amortization over 15 years for foreign R&D
- Section 163(j) interest expense limitation computed without the add-back of depreciation expense
- The phase-out of bonus depreciation by 2027

Section 163(j) & Bonus Depreciation

Section 163(j) Interest Limitation

- As of 1.1.22, the computation of adjusted taxable income does not add back depreciation or amortization
- Leverage the benefits of interest capitalization
 - Section 266 Election To Capitalize Otherwise Deductible Interest to Property
 - Consider 263(a) election to capitalize interest expense to inventory and deduct as inventory turns.
 - Consider interest as part of construction
 - Consider separately stating business interest income from sales contracts consistent with ASC Topic 606 (tax accounting method change).
 - Manage bonus depreciation to raise taxable income lowering the 163(j) limit.
 - Consider loan agreements with intercompany interest charges to increase deductible interest potentially

Bonus Depreciation Phase-Out

2024: 60%

2025: 40%

2026: 20%

2027 & After: 0%

Section 179 deduction may now be preferable:

\$1,220,000 maximum deduction with

\$3,050,000 assets in service phase-out

What May Come With Tax Reform

- Expecting some kind of tax reform in 2025
 - Likely to lower corporate tax rate
 - Could reverse 174, extend bonus depreciation, 163(j)
 - Could introduce tariffs on imports
 - Expect increased activity in M&A and IPO markets
- State conformity to tax reform varies by state- Rolling, Fixed Date, Specific Conformity

SALT

State and Local Tax Hot Topics

- California NOL suspension for 2024-2026
- California \$5M credit limitation for 2024-2026
- Ohio CAT changes starting in 2024
- Challenges to P.L. 86-272
- San Francisco Gross Receipts Tax reform for 2025
- Massachusetts 60-Day amnesty program

Connelly v. United States

Case Study

- **Supreme Court Decision Date:** June 6, 2024
- Life insurance proceeds are included in the valuation of corporate stock held by a decedent's estate when the company owns life insurance.
- No offset for the obligation to use proceeds for stock redemption – the life insurance proceeds increase company value regardless.
- Supreme Court Suggestion: Use cross-purchase agreements owned personally and keep the life insurance proceeds outside of the legal entity. This will not increase corporate value.
- Key Factors To Consider:
 - The subject ownership interest was a controlling interest
 - There was a requirement for the corporation to purchase the decedent's shares
 - Valuations for estate tax purposes are performed as of the moment of death
 - Non-operating assets are added back to the value of a business to determine its value

Connelly v. United States

Scenario Overview:

- Andrew and Tom, are equal shareholders of BW Inc. (S corporation) with Fair Market Value of \$6,000,000.
- Corporation owns \$3M term life insurance on each Andrew and Tom with a buy-sell agreement requiring the corporation to purchase the shares of a decedent's stock for \$3M.
- Andrew passes away and the corporation purchases Andrew's stock for \$3M.
- **IRS Challenge:**
 - Estate valued Andrew's stock at \$3M.
 - IRS argued the stock value is \$4.5M due to inclusion of insurance proceeds in the corporate valuation (\$6M FMV + \$3M Life Insurance Proceeds = \$9M Total x 50% ownership = \$4,500,000).

Connelly v. United States

Core Decision:

- Redemption obligation does not reduce stock value in estate valuation.
- A willing buyer values the corporation at \$6M intangible assets + \$3M cash from insurance.
- **Implications:**
 - Structuring buy-sell agreements and insurance ownership requires rethinking.
 - Avoidance of valuation increases through cross-purchase agreements highlighted.
- **Cross-Purchase Agreements:**
 - Shareholders purchase policies on each other's lives.
 - Avoids corporate ownership, removing insurance proceeds from stock valuation.
- **Insurance Partnership Approach:**
 - Shareholders form a partnership to own policies.
 - Policies remain outside individual estates.
 - Special allocation provision allocates tax-exempt income to surviving partners who receive increased basis for distributions they will receive to fund the purchase of a decedent's stock.

Pass-Through Entity Tax

- **SALT Cap Limitation:**
 - Introduced by the Tax Cuts and Jobs Act (TCJA) in 2017 and capped state and local tax (SALT) deductions at **\$10,000** for individuals.
 - Impact: Increased federal tax liabilities, particularly in high-tax states.
- **Pass-Through Entity Tax (PTET):**
 - Allows pass-through entities to pay state taxes at the entity level providing for a full deduction for state income tax.
 - Avoids SALT cap for owners of pass-through entities.
- **Expiration of SALT Cap:**
 - Set to sunset on **December 31, 2025**.
 - After sunset a full deduction for state and local taxes will be allowed without the \$10K limit, however AMT will act to lower tax benefits for deducting state & local income tax.
- **PTET Post-Sunset:**
 - Many states will retain PTET options even after SALT cap sunsets.
 - Current PTET adoption: 36 states + New York City.
 - Expiry aligned with SALT cap in ~10 jurisdictions.

Pass-Through Entity Tax

- **Before & After SALT Cap Expiration:**
 - Maximize PTET elections to mitigate SALT cap impact.
 - Pay PTET Before Year End to ensure tax deduction in year paid
 - Timely elect PTET (for example NY due 3/15 before end of tax year and CA due via payment on 6/15 before end of tax year)

- **After SALT Cap Expiration:**
 - Carefully evaluate PTET's benefits compared to unrestricted itemized SALT deduction.
 - PTET may outperform an itemized deduction for state income tax due to Alternative Minimum Tax and 3% itemized deduction phase out.
 - Conduct cash flow analysis to assess tax payment timing and benefits.

State Planning Considerations

- Sales sourcing review for businesses
- State apportionment throwback analysis for sales of tangible goods
- State nexus analysis
- State P.L. 86-272 analysis
- Review of filing methodologies – separate, combined, consolidated
- M&A Activity

Credits & Incentives Update

■ Why Credits & Incentives Are Valuable

- Can provide lucrative benefits to companies that are experiencing growth or operational changes.
- Credits & Incentives (C&I) may assist in providing above the line savings to reduce operational costs, improve cash flow, and provide a higher ROI for a respective project.

■ Year End Credits Planning

- Historical Project Review: Confirm / Review historical projects that occurred in 2024 or prior for eligibility of potential programs
 - Confirm due dates of any existing credits / incentives
 - Expiration of any credits / incentives / agreements
 - C&I Compliance Calendars
 - MBO data requests
- Inflation Reduction Act
 - Transferable Credits Election
 - Exempt entities and Direct Payment
 - IRS Portal Open for 2024 Tax Year Elections

■ Review budget forecasts for future projects:

- Expanding Real Estate Footprint
- Investment in TPP and Equipment
- Increasing Workforce
- Consolidation to single location
- Other (e.g. merger, IPO, restructuring, etc.)

■ Evaluate any potential C&I Opportunities

- Federal, state and local

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C&I

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Credits & Incentives Update: Inflation Reduction Act (IRA)

- **Focus of administration will be an extension of TCJA in 2025 and a potential reduction of tax rates**
 - Likely that certain incentive programs may be extended such as the Federal Opportunity Zone (set to expire Dec. 21, 2026)
 - Federal Disaster Relief Credits
 - Hurricanes, wildfires, etc.
- **Inflation Reduction Act**
 - Unlikely that the IRA will be fully repealed
 - Many project investments and jobs benefit Republican states
 - Earlier phase-outs prior to 2032 for certain credits may be approved
 - Amendments to others to credits fund TCJA extension
- **Certain credits will be under more scrutiny**
 - EVs – Individual, Consumer EV/Commercial Fleet
 - Other - Investment / Production Credits
 - More Domestic Manufacturing Provisions
 - Curb overseas production
 - Certain restrictions on overseas components/materials
 - Anti-China provisions
- **A lot of unknowns**
 - **Debate over the course of 2025 and how this will play out in Congress.**
 - **Uncertainty and outcomes are yet to be determined.**

R&D Tax Credit

- Accrual/Cash Basis Taxpayer Reminder
 - R&D expenses incurred in the tax year activities was qualified. i.e. if the activity of that expenses was done in 2024 and the Company hasn't expensed, encourage them to do so, before end of year to maximize their 2024 R&D tax credit.
- Type of Expenses
 - Wages – activity done in the year and paid for (i.e. W-2 Box 1 wages)
 - Supplies – Bought and used in the tax year
 - Cloud Leasing Costs – Used cloud space in the tax year
 - Contract Research – up to 65% of CR expenses
- Capitalized or depreciated expenses (limitations)

R&D TAX CREDIT

Payroll Tax Credit

- If the Tax Return was filed this past Q3 or Q4
- Don't forget to file the 941 with R&D election applied.

- If filed by 9/30 – Payroll election is taken in Q4 2024
- If filed by 12/31 – Payroll election is taken in Q1 2025
 - FORMS 941 and 8974

R&D TAX CREDIT

Documentation

- For R&D tax credits – time is now to get last bit of remaining technical documentation
- More downtime for our clients to pull the data
- Should be highlighting:
 - Uncertainty at the outset of development
 - Design, Capability, Methodology
 - Process of Experimentation (iterations, trial and error, tests, etc.)

R&D TAX CREDIT

Upcoming Changes to 6765

- Optional for ALL taxpayers in tax year 2024
- Requirement for SOME taxpayers in tax year 2025 (1.5 million in QREs or more)
- Implementing now to reduce headaches on the 2025 tax returns
- The updated form highlights what the IRS looks for during an Audit
- Check out our upcoming tax alerts on LinkedIn

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KEY TAKEAWAYS

Strategic Opportunities for Year-End Planning

- Maximizing deductions and credits: Opportunities in R&D, SALT cap workarounds/PTET, and energy incentives.
- Timing income and expenses: Tips for aligning with tax rate changes or deferrals.
- Leveraging bonus depreciation and understanding phase-out schedules.
- Considerations for partnerships, S-corporations, and other pass-through entities.



ARTICLE

Post-Election Recap: What Trump's Tax Proposals Could Mean for You

Trump is headed to the White House, and tax changes are coming in waves. Get ready with our comprehensive tax guide.



WHITE PAPER

2024 Year-End Tax Planning Guide for Businesses

Reduce your tax burden, improve cash flow and more effectively allocate precious resources all year long.



ARTICLE

R&D Tax Credit Guide: How Claiming It Can Save Your Business up to \$500,000 a Year

Learn how the R&D tax credit works, whom it benefits and how to take advantage of it to maximize your tax savings.

Resources

Scan the QR code to visit our Resources page and check out our library of articles, white papers and upcoming events.



Thank you for
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Additional Questions?

Reach out to us at

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Delivering impactful, bold solutions that increase clarity
and spark success for today and tomorrow.

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